

JORDANELLE SPECIAL
SERVICE DISTRICT
A COMPONENT UNIT OF WASATCH COUNTY

Financial Statements

December 31, 2006

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Financial Statements

December 31, 2006

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (unaudited)	MDA-1
Basic Financial Statements	
Statement of Net Assets	3
Statement of Revenues, Expenses, and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Supplemental Schedule (unaudited)	
Schedule of Impact Fee Activities	24



HAWKINS CLOWARD & SIMISTER

CERTIFIED PUBLIC ACCOUNTANTS, LC

DAVID A. CLOWARD, CPA
KEVIN L. SIMISTER, CPA
O. JEFFERY WILDE, CPA
MARK D. WHITTAKER, CPA
DENTON R. ALEXANDER, CPA
D. ERIC NUTTALL, CPA
MARK L. HALE, CPA
BRUCE D. GARFIELD, CPA
CLINT L. PETERSON, CPA
ANGELA ANDERSON, CPA

RICHARD E. HAWKINS, CPA
KEITH T. BORUP, CPA
RONALD K. HAWKINS, CPA

INDEPENDENT AUDITORS' REPORT

Honorable Administrative Board Members
Jordanelle Special Service District
Heber City, Utah

We have audited the accompanying basic financial statements of Jordanelle Special Service District, a component unit of Wasatch County, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of Jordanelle Special Service District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jordanelle Special Service District as of December 31, 2006, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 14, 2007, on our consideration of Jordanelle Special Service District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages MDA-1 through MDA-5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The accompanying Schedule of Impact Fee Activities on page 24 is supplementary information required by *Utah Code Sections* 10-5-129, 10-6-150, 17-36-37, and 17A-1-4, and is not a required part of the basic financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

February 14, 2007

JORDANELLE SPECIAL SERVICE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Jordanelle Special Service District, we offer readers of the District's financial statements this narrative overview and analysis of the District's financial performance during the year ending December 31, 2006. Please read it in conjunction with the District's financial statements and additional information that we have furnished in the Independent Auditors' Report.

FINANCIAL HIGHLIGHTS

- The District's total net assets increased from \$41,874,357 to \$50,887,265 due to the completed construction on additional infrastructure, and accepted infrastructure built by developers and turned over to the District.
- The District's total operating and nonoperating expenses increased due to the operation and maintenance of additional facilities within the District. As the District continues to grow additional facilities, employees, equipment, vehicles etc. will be added causing an increase in expenses.
- The District's revenues are mainly from charges for services, hookup fees, water rights reservations, bond assessments and the contract with Park City.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes the Management's Discussion and Analysis, the Independent Auditors' Report and the basic financial statements of the District. The financial statements also include notes that explain in more detail some of the information in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information of the District accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about the District's activities. The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amounts of investments and resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through its fees and other charges, and to determine its profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financial activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

JORDANELLE SPECIAL SERVICE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

FINANCIAL ANALYSIS OF THE DISTRICT

The Statement of Net Assets, and the Statement of Revenues, Expenses, and Changes in Net Assets report the net assets of the District and the change in them. The District's net assets, or the difference between assets and liabilities, is one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets will be one indicator of whether its financial health is improving or deteriorating. However, in the future one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

NET ASSETS

**Table A-1
Statement of Net Assets
2006**

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Current and Other Assets	\$ 3,265,303	\$ 2,470,398	794,905	% 24
Noncurrent Assets	49,293,947	59,510,198	(10,216,251)	(20)
Capital Assets	<u>84,262,434</u>	<u>76,574,216</u>	<u>7,688,218</u>	.09
Total Assets	<u>\$136,821,684</u>	<u>\$138,554,812</u>	<u>(173,328)</u>	<u>(.01)</u>
Current Liabilities	\$ 9,691,194	\$ 7,813,367	\$ 1,877,827	% 19
Long Term Liabilities	<u>76,243,225</u>	<u>88,867,088</u>	<u>(12,623,863)</u>	<u>(16)</u>
Total Liabilities	<u>\$85,934,419</u>	<u>\$96,680,455</u>	<u>\$(10,746,036)</u>	<u>(13)</u>
Invested in Capital Assets, Net of Related Debt	\$ 45,866,066	\$31,156,759	\$ 14,709,307	26
- Restricted	6,652,370	4,976,019	1,676,351	25
- Unrestricted	<u>(1,631,171)</u>	<u>5,741,579</u>	<u>(7,372,750)</u>	452
Total Net Assets	<u>\$ 50,887,265</u>	<u>\$41,874,357</u>	<u>\$9,012,908</u>	<u>% 18</u>

JORDANELLE SPECIAL SERVICE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

NET ASSETS (cont.)

**Table A-2
Statement of Revenues,
Expenses, and Changes in Net Assets
2006**

	<u>2006</u>	<u>2005</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Operating Revenues	\$ 17,444,794	\$ 13,649,523	\$3,795,271	% 21
Nonoperating Revenues	<u>632,074</u>	<u>358,741</u>	273,333	<u>43</u>
Total Revenues	<u>18,076,868</u>	<u>14,008,264</u>	<u>4,068,604</u>	<u>22</u>
Depreciation Expense and Amortization Expense	1,556,145	1,475,440	80,705	05
Other Operating Expense	5,215,981	4,523,259	692,722	13
Nonoperating Expense	<u>2,763,968</u>	<u>2,651,653</u>	<u>112,315</u>	<u>04</u>
Total Expenses	<u>9,536,094</u>	<u>8,650,352</u>	<u>885,742</u>	<u>9</u>
Income (Loss) Before Capital Contributions	8,540,774	5,357,912	3,182,862	
Capital Contributions-Impact Fees	<u>472,134</u>	<u>551,227</u>	<u>(79,093)</u>	
Changes in Net Assets	9,012,908	5,909,139	3,103,769	
Beginning Net Assets	<u>41,874,357</u>	<u>35,965,218</u>	<u>5,909,139</u>	
Ending Net Assets	<u>\$50,887,265</u>	<u>\$41,874,357</u>	<u>\$ 9,012,908</u>	

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen in Table A-2 above, the increase in Operating Revenues contributed to the increase in the changes in Net Assets from 2005 to 2006. These increases were due to the growth of the District, added facilities and improvements to current facilities, as well as added participation of developments located within the District.

JORDANELLE SPECIAL SERVICE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (cont.)

DEBT ADMINISTRATION

The District has a loan with Zions Bank to help finance the construction of the wastewater treatment plant and system. The loan is a series of disbursements due June 20, 2009.

The District was issued Special Assessment Bonds used to pay off the interim warrants from the State of Utah which were used for construction of facilities and infrastructure for the District.

Certificates of Participation were issued in 2002 to purchase the land for the Wastewater Reclamation Facility and an agreement with Mountain View Ranches to purchase water rights. They are payable over a ten year period.

Jordanelle Special Service District
Debt
December 31, 2006

Special Assessment Bonds	38,233,000
Certificates of Participation	3,530,000
Customer Deposits	9000
Compensated Absences	99,921
Interim Warrants	5,745,304
 Total Long Term Debt	 \$47,617,225

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Governing Board and management considered many factors when setting the 2007 budget. One of those factors was the local economy and the impact our rates will have on the local population and developments within the District. The District is dedicated to practice water conservation and commits itself to train and keep up to date employees and management on this subject. The training and knowledge the District receives in conserving and effectively using water and managing wastewater will be passed on to developers and water users. The District has set fees in 2007 that will be competitive with other governmental entities within Wasatch County and the State. In 2007 the District received water share contributions valued at \$855,000 from Victory Ranch. The District expects to receive other water shares, and as they are received, the value will be based on the current market value.

CAPITAL ASSET DISCLOSURE

Jordanelle Special Service District is responsible for providing water and sewer service to customers within the District boundaries. JSSD owns various capital assets that assist the District in providing services. For example, all mining equipment, railroad equipment and similar tools and equipment are for the purpose of maintaining the Ontario Drain Tunnel, which is the main source of water for the District. Pump Stations, Water Tanks, and other infrastructure assets are designed to either treat, pump and deliver water to customers, or to collect, transport and treat wastewater from customers.

JSSD is also charged with the responsibility to ensure that all water and sewer systems are designed, constructed and maintained with the State and District standards. Vehicles, tools and other equipment are used to inspect, maintain and operate the sewer and water systems.

Over the course of the next few years, JSSD intends to acquire additional capital assets to improve and extent the water and sewer systems owned by the District in order to provide service to more property owners within the District boundaries.

CONTACTING THE DISTRICT'S FINANCIAL MANAGER

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Jordanelle Special Service District, 10420 N. Jordanelle Blvd, Heber City, Utah 84032.

FINANCIAL STATEMENTS

The financial statements include integrated sets of financial statements as required by accounting principles generally accepted in the United States of America. The statements include:

Statement of Net Assets

Statement of Revenues, Expenses, and Changes in Net Assets

Statement of Cash Flows

JORDANELLE SPECIAL SERVICE DISTRICT
A COMPONENT UNIT OF WASATCH COUNTY

Statement of Net Assets

December 31, 2006

With Comparative Totals for December 31, 2005

ASSETS

	2006	2005
Current Assets		
Cash and cash equivalents (Notes 1 and 2)	\$ 1,068,742	\$ 1,002,762
Accounts receivable (Note 1)	1,756,124	973,087
Accrued interest receivable	53,640	107,398
Feasibility study receivables	208	208
Current portion special assessment receivable (Note 4)	370,789	386,943
Other current assets	15,800	
Total current assets	<u>3,265,303</u>	<u>2,470,398</u>
Noncurrent Assets		
Restricted cash and cash equivalents (Notes 1 and 2)	14,353,909	15,623,919
Prepaid expenses	170,640	
Special assessment receivable (Note 4)	33,359,000	42,430,000
Capital assets (Notes 1 and 3)		
Land, water rights, and construction in progress	42,913,785	36,214,903
Depreciable buildings and equipment, net	41,348,649	40,359,313
Bond issuance costs (net of \$593,912 and \$456,215 of accumulated amortization, respectively)	<u>1,410,398</u>	<u>1,456,279</u>
Total noncurrent assets	<u>133,556,381</u>	<u>136,084,414</u>
Total assets	<u>\$ 136,821,684</u>	<u>\$ 138,554,812</u>

LIABILITIES

Current Liabilities		
Accounts payable and related liabilities	\$ 1,350,080	\$ 759,922
Accrued payroll and related liabilities	46,974	43,468
Accrued interest payable	1,481,575	542,730
Feasibility study escrow	197,347	106,656
Payable - other governmental unit	224,035	
Deferred revenue (Note 5)	952,394	918,648
Current portion certificates payable (Note 7)	194,000	186,000
Current portion bonds payable (Note 7)	4,874,000	4,869,000
Current portion deferred special assessment revenue (Notes 4 and 7)	<u>370,789</u>	<u>386,943</u>
Total current liabilities	<u>9,691,194</u>	<u>7,813,367</u>
Noncurrent Liabilities		
Customer deposits	9,000	5,000
Compensated absences (Note 1)	99,921	87,088
Deferred revenue (Note 5)	335,000	385,000
Interim warrants (Note 7)	5,745,304	
Certificates of participation payable (Note 7)	3,336,000	3,530,000
Special assessment bonds payable (Note 7)	33,359,000	42,430,000
Deferred special assessment revenue (Notes 4 and 7)	<u>33,359,000</u>	<u>42,430,000</u>
Total noncurrent liabilities	<u>76,243,225</u>	<u>88,867,088</u>
Total liabilities	<u>\$ 85,934,419</u>	<u>\$ 96,680,455</u>

NET ASSETS (NOTES 1 AND 13)

Invested in capital assets, net of related debt	\$ 45,866,066	\$ 31,156,759
Restricted for		
Capital projects	404,474	
Prepaid items	385,000	435,000
Debt service	5,862,896	4,541,019
Unrestricted net assets (deficit)	<u>(1,631,171)</u>	<u>5,741,579</u>
Total net assets	<u>\$ 50,887,265</u>	<u>\$ 41,874,357</u>

JORDANELLE SPECIAL SERVICE DISTRICT
A COMPONENT UNIT OF WASATCH COUNTY
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended December 31, 2006
With Comparative Totals for the Year Ended December 31, 2005

	2006	2005
Operating Revenues		
Charges for services	\$ 5,784,626	\$ 3,644,939
Hookup fees	97,310	808,183
Bond assessments	10,947,378	8,613,060
Miscellaneous	615,480	583,341
Total operating revenues	<u>17,444,794</u>	<u>13,649,523</u>
Operating Expenses		
Payroll and related benefits	1,072,754	902,049
Insurance	218,317	215,238
Telephone and utilities	597,431	614,960
Legal, professional, and technical	1,129,856	594,389
Materials, supplies, and services	2,105,649	2,094,770
Miscellaneous	91,974	101,853
Depreciation	1,418,448	1,383,484
Amortization	137,697	91,956
Total operating expenses	<u>6,772,126</u>	<u>5,998,699</u>
Operating income	<u>10,672,668</u>	<u>7,650,824</u>
Nonoperating Revenues (Expenses)		
Interest revenue	632,074	358,741
Interest expense	(2,654,199)	(2,616,778)
Loss on sale of assets	(6,000)	(34,875)
Loss on maturity of investments	(103,769)	
Total nonoperating revenues (expenses)	<u>(2,131,894)</u>	<u>(2,292,912)</u>
Income before contributions	<u>8,540,774</u>	<u>5,357,912</u>
Capital Contributions		
Impact fees	472,134	551,227
Total capital contributions	<u>472,134</u>	<u>551,227</u>
Change in Net Assets	9,012,908	5,909,139
Net assets – beginning of year	<u>41,874,357</u>	<u>35,965,218</u>
Net assets – end of year	<u>\$ 50,887,265</u>	<u>\$ 41,874,357</u>

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Statement of Cash Flows

For the Year Ended December 31, 2006

With Comparative Totals for the Year Ended December 31, 2005

	2006	2005
Cash Flows from Operating Activities		
Receipts from customers	\$ 5,086,645	\$ 5,925,237
Bond assessment receipts	10,947,378	8,613,060
Payments to suppliers	(3,515,474)	(3,045,625)
Payments to employees	(1,056,415)	(876,563)
Other receipts	706,171	583,341
Net cash provided by operating activities	<u>12,168,305</u>	<u>11,199,450</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from capital debt	5,745,304	36,360,000
Capital contributions – impact fees	472,134	551,227
Purchase of capital assets	(2,975,690)	(115,948)
Construction of capital assets	(6,136,976)	(12,125,178)
Principal paid on capital debt	(9,252,000)	(23,409,000)
Interest paid on capital debt	(1,715,354)	(3,980,127)
Bond issuance costs	(91,816)	(998,016)
Net cash used by capital and related financing activities	<u>(13,954,398)</u>	<u>(3,717,042)</u>
Cash Flows from Investing Activities		
Interest	685,832	268,493
Purchase of investments	(6,838,769)	
Proceeds from maturities of investments	6,735,000	
Net cash provided by investing activities	<u>582,063</u>	<u>268,493</u>
Net increase (decrease) in cash and cash equivalents	(1,204,030)	7,750,901
Balances – beginning of year	<u>16,626,681</u>	<u>8,875,780</u>
Balances – end of year	<u>\$ 15,422,651</u>	<u>\$ 16,626,681</u>
Cash and cash equivalents	\$ 1,068,742	\$ 1,437,762
Restricted cash and cash equivalents	<u>14,353,909</u>	<u>15,188,919</u>
	<u>\$ 15,422,651</u>	<u>\$ 16,626,681</u>
<i>Reconciliation of operating income to net cash provided by operating activities</i>		
Operating income	\$ 10,672,668	\$ 7,650,824
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,418,448	1,383,485
Amortization	137,697	91,955
Changes in assets and liabilities		
Decrease (increase) in receivables and prepaids	(969,477)	1,037,049
Increase in accrued liabilities	921,223	601,071
Increase in deferred revenues	(12,254)	435,066
Net cash provided by operating activities	<u>\$ 12,168,305</u>	<u>\$ 11,199,450</u>
<i>Noncash capital and related financing activities</i>		
License agreement with All West Communications, Inc.	\$ 1,800	\$ 1,800
Net book value of assets traded-in	\$ 27,000	
Capitalized interest	\$ 95,546	

NOTES TO FINANCIAL STATEMENTS

The notes to the financial statements are included to provide information that is essential to a user's understanding of the financial statements.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements and notes are representations of Jordanelle Special Service District's management, which is responsible for their integrity and objectivity. They have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), and present the financial position, the changes in its financial position, and the cash flows of the District as of December 31, 2006, and for the year then ended.

Reporting Entity

Jordanelle Special Service District (the District) is an enterprise fund type of the governmental entity Wasatch County operated similar to a private business enterprise. The intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges for water and sewer collection and treatment services.

Component Unit

Under the guidelines established by GASB 39, the District has been determined to be a component unit of Wasatch County for financial accounting purposes, and is included as a discrete component unit in the County's financial statements.

Basis of Accounting

Enterprise funds focus on measurement of the flow of economic resources. With this measurement focus, all assets and liabilities associated with the operation of this fund, both current and noncurrent, are included on the Statement of Net Assets. The accrual basis of accounting is utilized by enterprise funds. Under this method, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Enterprise funds follow all Governmental Accounting Standards Board (GASB) pronouncements. In addition, all Financial Accounting Standards Board (FASB) statements and pronouncements issued on or before November 30, 1989 are followed, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued)

The principle operating revenues of the District are fees for water and sewer treatment services provided to residents within the District's boundaries, special assessments, and water reservation fees received from developers within the District's boundaries. Operating expenses for the District include the costs of services and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Cash and Cash Equivalents

The District defines cash and cash equivalents as all deposits in its checking and money market accounts, and all highly liquid debt instruments purchased with a maturity of three months or less. See Note 2 for further information.

Capital Assets

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. The costs of maintenance and repairs are expensed as incurred; significant renewals and betterments are capitalized. Depreciation is computed using the straight-line method over the useful life of the asset. Estimated useful lives of the various classes of depreciable capital assets are as follows:

	<u>Years</u>
Water treatment plant	20 - 50
Wastewater system	50
Water system	10 - 50
Buildings and improvements	40
Vehicles	4 - 6
Equipment	5 - 10
Mining tools and equipment	10
Rails and railroad equipment	10 - 15

Assets the District is constructing are not placed in service until the construction is complete; therefore, no depreciation is taken. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in the income for the period. See Note 3 for further information.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Wasatch County passed an ordinance allowing the District to place a lien on any property with an overdue balance on the fees. The District will place a lien on the property if the account is ninety (90) days delinquent at September 1. The District will eventually collect the fees; therefore, an allowance for doubtful accounts is not recorded in the financial statements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

The District invests in the Public Treasurers' Investment Fund (PTIF) and fixed rate corporate obligations which are authorized by the State of Utah. Investments are carried at fair market value. See Note 2 for further information.

Budgeting

The District's governing board adopts a budget for each calendar year prior to the beginning of the year. These budgets are amended during the year, as the board deems necessary, to accommodate current operations and are accepted by official vote of the board. The board amended the budget for the year ended December 31, 2006.

Compensated Absences

The District's compensation policy permits employees to accumulate unused vacation. Portions of amounts accumulated at any point in time can be expected to be redeemed before termination of employment. Sick leave is paid out at one-half the amount accrued upon retirement, or forfeited at termination of employment. The District has chosen to accrue one-half the available sick leave in addition to the vacation accrual. The amounts of accrued vacation and sick leave are \$30,614 and \$69,307, respectively, as of December 31, 2006.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, and natural disasters for which the District carries commercial insurance. The District also carries commercial workers' compensation insurance. There were no significant reductions in coverage from the prior year, and settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District first utilizes restricted resources to finance qualifying activities. See Note 13 for further information.

NOTE 2 – DEPOSITS & INVESTMENTS

Deposits and investments for Jordanelle Special Service District are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by the rules of the Utah Money Management Council (the Council). Following are discussions of the District's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be recovered. The District's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of District funds to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of December 31, 2006, \$1,459,077 of the District's bank balance of \$1,559,077 was uninsured and uncollateralized.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 2 – DEPOSITS, INVESTMENTS, AND RESTRICTED ASSETS (CONTINUED)

Custodial Credit Risk (Continued)

Investments

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk of investments.

Credit Risk

Credit Risk is the risk that the counterparty to an investment transaction will not fulfill its obligations. The District's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through the qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations; and shared in a money market fund as defined in the Act.

The District is also authorized to invest in the Utah Public Treasurer's Investment Fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

Following are the District's investments at December 31, 2006.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Quality Ratings</u>
PTIF investments	\$ 13,131,394	less than 1 year	not rated
Fixed rate corporation obligations	1,548,650	83 days *	A
	<u>\$ 14,680,044</u>		

*Weighted-average maturity

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 2 – DEPOSITS, INVESTMENTS, AND RESTRICTED ASSETS (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The District manages its exposure to declines in fair value by investing mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the District's investments are noted in the previous table.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy to limit this risk is to adhere to the rules of the Money Management Council. The Council's rule 17 limits investments in a single issuer of commercial paper and corporate obligation to between 5 and 10 percent depending upon the total dollar amount held in the District's portfolio at the time of purchase.

None of the District's investments in corporate obligations exceed the limits established by the Council's rule 17.

Restricted Cash and Cash Equivalents

In 2002, the District began collecting impact fees for sewer development and improvements as described in Note 6. Unexpended fees and interest of \$404,474 are being held in a PTIF account.

As described in Note 5, the District was paid \$485,000 to cover costs associated with administering the Tuhaye bond. As of December 31, 2006, unexpended fees of \$385,000 are being held in a PTIF account.

Bond assessments are restricted until they are needed to meet debt service requirements. As of December 31, 2006, unexpended assessments of \$1,623,211 are being held in various PTIF accounts.

Debt service reserve accounts established to meet bond issue requirements currently total \$11,941,224. These funds are being held in various trust accounts and will be used to meet future debt service requirements.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006 is as follows:

	Balance 12/31/2005	Additions	Deletions	Balance 12/31/2006
Capital assets, not being depreciated				
Land	\$ 1,684,880	\$ 2,336,400		\$ 4,021,280
Easements	196,700	4,290		200,990
Water rights	20,686,771	453,600		21,140,371
Construction in progress	13,646,552	6,148,976	\$ (2,244,384)	17,551,144
Total capital assets, not being depreciated	36,214,903	8,943,266	(2,244,384)	42,913,785
Capital assets, being depreciated				
Ross Creek Water Treatment Plant	15,528,166	21,128		15,549,294
Wastewater system	5,289,332	341,131		5,630,463
Water system	17,989,016	88,630		18,077,646
Other infrastructure		1,793,494		1,793,494
Buildings and related improvements	2,706,143			2,706,143
Vehicles	336,366	143,531		479,897
Equipment	134,836		(21,000)	113,836
Mining tools and equipment	3,708,300	37,870		3,746,170
Rails and railroad equipment	1,089,829			1,089,829
Total capital assets, being depreciated	46,781,988	2,425,784	(21,000)	49,186,772
Less accumulated depreciation				
Ross Creek Water Treatment Plant	1,716,722	310,721		2,027,443
Wastewater system	610,457	105,786		716,243
Water system	1,943,955	370,027		2,313,982
Other infrastructure		29,537		29,537
Buildings and related improvements	235,315	67,653		302,968
Vehicles	260,503	44,417		304,920
Equipment	61,201	11,283	(3,000)	69,484
Mining tools and equipment	1,236,100	371,461		1,607,561
Rails and railroad equipment	358,422	107,563		465,985
Total accumulated depreciation	6,422,675	1,418,448	(3,000)	7,838,123
Net depreciable assets	40,359,313	1,007,336	(18,000)	41,348,649
Capital assets, net	\$ 76,574,216	\$ 9,950,602	\$ (2,262,384)	\$ 84,262,434

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 4 – SPECIAL ASSESSMENT RECEIVABLES AND DEFERRED REVENUE

Governmental accounting principles require that special assessment revenue be recognized when the underlying event has occurred (levy) and demand for payment is made (billing). Therefore, the District has recorded \$33,729,789 of special assessment receivables and deferred revenue since billings for these assessments have not been made.

See Note 7 for additional information regarding the special assessment bonds. The amount billed equaled \$10,947,378 for the year ending December 31, 2006.

NOTE 5 – DEFERRED REVENUE

In June 2002, the District entered into an agreement with Park City Water Service District to supply them with 1,000 acre feet of water annually at a price of \$750 per acre foot which is indexed to increase annually. In December 2006, the District received \$877,394 for the 2007 water supply.

In October 2003, the District entered into an agreement with Park City Municipal Corporation (PCM) to maintain the Spiro and Judge Tunnels. Under the terms of the contract, PCM is required to pre-pay for work to be performed in the amount of \$25,000. The District offsets these funds with the expenditures related to the maintenance agreement and periodically invoices PCM in order to bring the reserve back up to \$25,000.

In September 2005, the District received \$485,000 from Talisker L.L.C. to fund administration costs on the Tuhaye project. The District recognizes \$50,000 of this amount as earned revenue each year in accordance with the agreement. The remaining balance is \$385,000 as of December 31, 2006.

NOTE 6 – IMPACT FEE REVENUE

The District has assessed an impact fee of \$3,290 per equivalent residential unit since May 1, 2002, prior to that it was \$3,200, for developments wishing to participate in the services of the District.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 7 – LONG-TERM DEBT

Long-term Liabilities

Descriptions of the long-term debt are as follows:

Interim Warrants

The District has a loan with Zions Bank to help finance the construction of the wastewater treatment plant and system. The loan is a series of disbursements due June 20, 2009. At December 31, 2006, the District has received a total of \$5,649,758 with a 4.58% interest rate. Capitalized interest of \$95,546 was added to the loan balance as of December 31, 2006. The District has approved issuance of \$44,210,000 in interim warrants in total.

Special Assessment Bond, Series 1999A

This bond was issued in 1999 in the amount of \$2,736,000. This bond was used to pay off the interim warrants from the State of Utah which were used to finance the construction of the Jordanelle Trunk Line. The bond will be payable over a ten-year period with a 3% interest rate. Annual payments began October 1, 2000.

Special Assessment Bond, Series 1999B

This bond was issued in 1999 in the amount of \$1,153,000. This bond was used to pay off the sewer loan with Zion's Bank. The bond will be payable over a ten-year period with interest rates ranging from 6.3% to 6.8%. Annual payments began October 1, 2000.

Special Assessment Bond, Series 2000A

This bond was issued in 2000 in the amount of \$11,660,000. This bond was used for acquiring and installing main sewer and water lines and related facilities and feeder lines which will bring water and sewer service to the boundaries of the privately owned Tier One Assessment parcels of land in the District. The bond will be payable over a ten-year period with an 8% interest rate. Annual payments began October 1, 2001.

Special Assessment Bond, Series 2000B

This bond was issued in 2000 in the amount of \$9,000,000. This bond was used to pay off the interim warrants from the State of Utah which were used to finance the construction of the Ross Creek Water Treatment Plant. The bond was payable over a ten-year period with a 7.1% interest rate. Annual payments began January 1, 2002. A portion of the bond was refunded on December 29, 2005 by the Special Assessment Refunding Bonds, Series 2005A and 2005B. The remaining balance of \$853,000 was paid in January 2006.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Long-term Liabilities (Continued)

Special Assessment Bond, Series 2000C

This bond was issued in 2000 in the amount of \$5,568,331. This bond was used to pay off the interim warrants from the State of Utah which were used to finance the construction of the Ross Creek Water Treatment Plant. The bond was payable over a ten-year period with a 7.1% interest rate. Annual payments began January 1, 2002. A portion of the bond was refunded on December 29, 2005 by the Special Assessment Refunding Bonds, Series 2005A and 2005B. The remaining balance of \$528,000 was paid in January 2006.

Special Assessment Bond, Series 2000D

This bond was issued in 2001 in the amount of \$15,736,669. This bond was used to pay off the interim warrants from Zion's Bank which were used to finance the construction of infrastructure related to the Ross Creek Water Treatment Plant. The bond was payable over a ten-year period with a 7.35% interest rate. Annual payments began January 1, 2002. A portion of the bond was refunded on December 29, 2005 by the Special Assessment Refunding Bonds, Series 2005A and 2005B. The remaining balance of \$1,485,000 was paid in January 2006.

Special Assessment Bond, Series 2005A and 2005B

These bonds were issued in 2005 in the amount of \$15,670,000. These bonds were used to refund other bonds in order to lower interest costs over the next six years. The bonds are payable over a five year period with interest rates ranging from 3.9% to 4.2%. Annual payments begin January 1, 2007.

Adjustable Rate Demand Assessment Bonds, Series 2005 (Tuhaye Project)

This bond was issued in 2005 in the amount of \$20,690,000. This bond was used to fund infrastructure and development of the Tuhaye project. This bond is payable over a 20 year period with a variable interest rate. The interest rate is reset weekly with interest paid monthly. Annual payments began September 1, 2006. Assessment prepayments from project sales to redeem bonds began in September 2005.

Certificates of Participation

These certificates were issued in 2002 in the amount of \$600,000. They were used to purchase the land on which the Wastewater Reclamation Facility will be built. The certificates will be payable over a ten-year period with interest rates ranging from 2.8% to 4.6%. Annual payments began April 1, 2003.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Long-term Liabilities (Continued)

Certificates of Participation

In June 2002, the District entered into an agreement with Mountain View Ranches, LLC to purchase 600 acre feet of water rights for \$3,000,000. The 600 acre feet were to be purchased in one block of 200 acre feet in 2002 for \$1,000,000, and blocks of 100 acre feet of water over the next four years for \$500,000 each with an interest rate of 7.5% per annum. In March 2003, the contract was renegotiated in order to purchase water rights for 660.564 acre feet of water over an eight year period. In December 2003, these certificates were issued in the amount of \$3,853,000 to pay off the agreement with Mountain View Ranches, LLC. The certificates will be payable over a twenty-year period with an interest rate ranging from 3.15% to 6.0%. Annual payments began May 15, 2004.

The District's long-term liabilities for the year ended December 31, 2006 are as follows:

	Balance 12/31/2005	Additions	Reductions	Balance 12/31/2006	Due Within One Year
Revenue Bonds					
Special assessment bonds	\$ 47,299,000		\$ (9,066,000)	\$ 38,233,000	\$ 4,874,000
Total bonds payable, net	<u>47,299,000</u>		<u>(9,066,000)</u>	<u>38,233,000</u>	<u>4,874,000</u>
Other Liabilities					
Certificates of participation	3,716,000		(186,000)	3,530,000	194,000
Interim warrants		\$ 5,745,304		5,745,304	
Total notes payable	<u>3,716,000</u>	<u>5,745,304</u>	<u>(186,000)</u>	<u>9,275,304</u>	<u>194,000</u>
Customer deposits	5,000	4,000		9,000	
Compensated absences	87,088	52,491	(39,658)	99,921	
Deferred revenue	435,000		(50,000)	385,000	50,000
Deferred assessment revenue	<u>42,816,943</u>		<u>(9,087,154)</u>	<u>33,729,789</u>	<u>370,789</u>
Total long-term debt	<u>\$ 94,359,031</u>	<u>\$ 5,801,795</u>	<u>\$ (18,428,812)</u>	<u>\$ 81,732,014</u>	<u>\$ 5,488,789</u>

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Annual Debt Service Requirements

The District's annual requirements to meet their debt obligations to maturity are as follows:

Year ending December 31:	Principal	Interest	Total Obligation
2007	\$ 5,068,000	\$ 1,972,588	\$ 7,040,588
2008	5,279,000	1,720,221	6,999,221
2009	11,292,304	2,089,095	13,381,399
2010	5,361,000	1,182,478	6,543,478
2011	5,650,000	910,235	6,560,235
2012-2016	4,323,000	2,770,631	7,093,631
2017-2021	5,573,000	1,766,315	7,339,315
2022-2025	4,962,000	491,465	5,453,465
Net noncurrent debt	<u>\$ 47,508,304</u>	<u>\$ 12,903,028</u>	<u>\$ 60,411,332</u>

NOTE 8 – LICENSE AGREEMENT

On June 10, 2003, the District entered into a license agreement with All West Communications, Inc. (AWC) to allow AWC to use the Ontario Drain Tunnel #2 property for the installation, operation, maintenance, and repair of fiber optic and associated telecommunications facilities. As consideration, AWC will build, operate, and maintain a dedicated fiber optic cable containing eight dark fibers in a separate cable for the District's exclusive use and benefit for the duration of the agreement. AWC estimates the initial consideration to be \$23,400 with annual maintenance service valued at \$1,800. The initial term of the agreement is 20 years beginning June 1, 2003, and may be renewed for two additional 20 year terms.

NOTE 9 – INTERLOCAL AGREEMENT

On April 24, 1995, Jordanelle Special Service District entered into an interlocal agreement with Midway Sanitation District for the construction, use, operation, and management of the Joint Wastewater Pipeline. The agreement provides for the creation of an Executive Interlocal Board to administer the use, operation, and management of the Joint Line. Jordanelle Special Service District and Midway Sanitation District will have an undivided interest in the Joint Line, with the ownership percentages divided at the time of completion of the project.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 9 – INTERLOCAL AGREEMENT (CONTINUED)

The ownership will not follow along the boundaries of each District. It will be allocated based on the amount each District paid for the construction.

The Joint Line was placed in service October 1, 1999 with ownership being divided as follows:

Jordanelle Special Service District's contribution	\$ 2,972,000
Midway Sanitation District's contribution	326,000
Total contribution	<u>\$ 3,298,000</u>

The agreement provides Midway Sanitation Special Service District with the exclusive right and obligation to collect revenues and control all connections to the Joint Line within the anticipated boundary of the Midway Sanitation District. Jordanelle has the same rights and obligations to collect revenues and control connections to the Joint Line within their boundaries.

NOTE 10 – RETIREMENT PLANS

State Retirement

The District contributes to the Local Governmental Noncontributory Retirement System and the 401(k) Defined Contribution System for qualifying employees. These retirement systems are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the *Utah Code* Annotated 1953 as amended. The Utah Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor.

The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the State Contributory Retirement System and State Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 10 – RETIREMENT PLANS (CONTINUED)

State Retirement (Continued)

The District was required to contribute 11.09% through June 2006, and 11.59% thereafter of annual covered salary on behalf of participants in the Local Governmental Noncontributory Retirement System. Also, the District was required to contribute 4.84% of their covered employees' annual salaries for members in the 401(k) Plan Defined Contribution System.

The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The District's contributions have been as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Local Governmental - Noncontributory	\$ 94,133	\$ 77,084	\$ 75,663
401(k) Plan	40,016	32,467	31,956
Total District contributions	<u>\$ 134,149</u>	<u>\$ 109,551</u>	<u>\$ 107,619</u>

The contributions were equal to the required contributions for the year.

Cafeteria

The District offers a cafeteria plan to all employees to fund health insurance benefits.

NOTE 11 – RELATED PARTIES

Wasatch County

During 2006, the District reimbursed Wasatch County for health insurance premiums paid on behalf of District employees. Reimbursements to Wasatch County for the year ending December 31, 2006 totaled \$171,596. The District is a component unit of Wasatch County.

Wasatch County Special Service Area #1

In March 2001, the District entered into an agreement with Wasatch County Special Service Area #1 (WCSSA#1) for reservation of M&I water at a cost of \$50 per acre-foot for 1,500 acre-feet totaling \$75,000. In 2004, the District entered into a second contract with WCSSA#1 for reservation of water in the amount of \$62,500 per year.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 11 – RELATED PARTIES (CONTINUED)

Wasatch County Special Service Area #1 (Continued)

In 2006, the District entered into a third contract with WCSSA#1 for 316 acre feet of CUP M&I water. The District paid \$186,440 for the first three contract years. Total payments to WCSSA#1 were \$355,190. The District and WCSSA#1 are both component units of Wasatch County.

Midway Irrigation Company and Beaver Shingle Creek Irrigation Company

On April 3, 2000, Resolution 2000-7 was passed by the District's Board approving an operating lease agreement with Midway Irrigation Company and Beaver Shingle Creek Irrigation Company for lease of Tunnel Water Rights. The lease is for a 25 year term and is renewable for another 25 year term. Lease payments will be made semi-annually and will consist of \$250 per acre foot per year. As of December 31, 2006, the District has paid Midway Irrigation Company and Beaver & Shingle Creek Irrigation Company \$584,893 and \$191,030, respectively, in water lease payments and fees for the year then ended. The District and Midway Irrigation Company have common governing board members.

Tuhaye Project

The District issued \$20,690,000 in special assessment bonds to purchase and develop infrastructure for the Tuhaye project. See Note 7 for further information. The District also performs various engineering services on a cost reimbursement basis. There was not a balance owed to the District for such services as of December 31, 2006. A District board member is an owner of this project.

North Village Special Service District

In 2002, the District entered into an agreement with North Village Special Service District (NVSSD) to provide wastewater treatment services for NVSSD. Until NVSSD's infrastructure is in place, the District will charge NVSSD a monthly water reservation fee of \$326 per acre foot for 83.33 acre feet. Additionally, the District provides inspections of the construction in progress. NVSSD paid the District \$336,740 during the year ended December 31, 2006, of which \$56,030 was still due as of December 31, 2006. The District and NVSSD are both component units of Wasatch County.

NOTE 12 – OPERATING LEASE COMMITMENTS

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

Salt Lake City Corporation

In May 1997, the District entered into an operating lease agreement with Salt Lake City Corporation to lease water rights for the next 25 years with the option to renew for another 25 years. Per this agreement Salt Lake City Corporation will sell the surplus flow of water from the Ontario Tunnel to the District for a set fee per acre foot. This fee is based on the replacement cost base price for Central Utah Water Conservancy District in the Bonneville Unit, plus \$40 per acre foot. The rate will automatically be adjusted, effective January 1 of each year, to reflect any changes in the replacement cost base price for Central Utah Water Conservancy District in the Bonneville Unit occurring during the immediately preceding calendar year. The District will be billed semi-annually. The lease may be terminated by the District at any time after 19 years from the effective date provided one year's prior notice is given. As of December 31, 2006, the District paid Salt Lake City Corporation \$414,239 in water lease payments for the year then ended.

Deercrest Associates I, L.C.

In November 1999, the District entered into an operating lease agreement with Deercrest Associates I, L.C. to lease water rights. Lease payments will be made semi-annually and will consist of 100 acre feet at \$220 per acre feet. The rate will automatically be adjusted, effective January 1 of each year, to reflect any changes in the replacement cost base price for Central Utah Water Conservancy District in the Bonneville Unit occurring during the immediately preceding calendar year. As of December 31, 2006, the District had paid Deercrest Associates I, L.C. \$22,000 in water lease payments for the year then ended.

John W. Lloyd Family Trust

In January 2001, the District entered into an operating lease agreement with John W. Lloyd Family Trust to lease water rights. Lease payments will be made annually and will consist of 60 acre feet at \$250 per acre feet until December 31, 2001. On January 1, 2002, and thereafter, the rate per acre foot can be adjusted upward if the fair market value of the water rights has increased above \$250. As adjusted, the water use value shall not exceed 150% of the price charged by the Central Utah Water Conservancy District to the Metropolitan Water District of Salt Lake City (MWD) for the Bonneville Unit water under MWD's approved petition or future MWD petitions or contracts by MWD for Bonneville Unit municipal and industrial water. As of December 31, 2006, the District has paid John W. Lloyd Family Trust \$15,000 in water lease payments for the year then ended.

NOTE 12 – OPERATING LEASE COMMITMENTS (CONTINUED)

William J. McNaughtan

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

In February 2001, the District entered into an operating lease agreement with William J. McNaughtan to lease water rights. Lease payments will be made annually and will consist of 159 acre feet at \$250 per acre pro-rated from the date of final approval to the end of the calendar year. Thereafter, the District will make annual payments on March 1 of each year. The annual lease price will be adjusted upward by the parties based on the percentage increase in the price charged by the Central Utah Water Conservancy District to the Metropolitan Water District of Salt Lake City (MWD) for the Bonneville Unit water under MWD's approved petition or MWD's future petitions or contracts for Bonneville Unit municipal water. The lease is for a 25 year term and is renewable for additional 25 year terms. As of December 31, 2006, the District has paid William J. McNaughtan \$39,750 in water lease payments for the year then ended.

Doyle & Mark Wilson Farm

In February 2001, the District entered into an operating lease agreement with Doyle & Mark Wilson Farm to lease water rights. Lease payments will be made annually and will consist of 363.75 acre feet at \$250 per acre pro-rated from the date of final approval to the end of the calendar year. Thereafter, the District will make annual payments on March 1 of each year. The annual lease price will be adjusted upward by the parties based on the percentage increase in the price charged by the Central Utah Water Conservancy District to the Metropolitan Water District of Salt Lake City (MWD) for the Bonneville Unit water under MWD's approved petition or MWD's future petitions or contracts for Bonneville Unit municipal water. The lease is for a 25 year term and is renewable for additional 25 year terms. As of December 31, 2006, the District has paid Doyle & Mark Wilson Farm \$90,938 in water lease payments for the year then ended.

Lost Acres LLC

In December 2005, the District entered into an operating lease agreement with Lost Acres LLC to lease water rights. Lease payments will be made annually and will consist of 230.70 acre feet at \$250 per acre. The annual lease price will be adjusted upward by the parties based on the percentage increase in the price charged by the Central Utah Water Conservancy District to the Metropolitan Water District of Salt Lake City (MWD) for the Bonneville Unit water under MWD's approved petition or MWD's future petitions or contracts for Bonneville Unit municipal water. The lease is for a 25 year term and is renewable for additional 25 year terms. As of December 31, 2006, the District has paid Lost Acres LLC \$57,675 in water lease payments for the year then ended.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Notes to Financial Statements

December 31, 2006

NOTE 13 – NET ASSETS

Net assets at December 31, 2006 consisted of the following:

Invested in capital assets, net of related debt:	
Property, plant, and equipment, net	\$ 85,672,832
Outstanding debt issued to construct capital assets	(39,806,766)
Total invested in capital assets, net of related debt	<u>\$ 45,866,066</u>
Restricted net assets:	
Restricted for construction of the Wastewater Reclamation Facility	\$ 404,474
Restricted for Tuhaye project administration costs	385,000
Restricted unspent portion of bond proceeds	3,815,969
Outstanding debt issued to construct capital assets	(3,815,969)
Restricted unspent portion of bond proceeds, net of related debt	<u>-0-</u>
Restricted for debt service	9,748,465
Outstanding debt issued to construct capital assets	(3,885,569)
Restricted for debt service, net of related debt	<u>5,862,896</u>
Total restricted net assets	<u>\$ 6,652,370</u>
Unrestricted deficit	\$ (1,631,171)
Total net assets	<u>\$ 50,887,265</u>

NOTE 14 – RECLASSIFICATION

Comparative data for the prior year have been presented in the financial statements to provide an understanding of changes in the District's financial position and results of operations. Certain data for the prior year have been reclassified to conform to the December 31, 2006 presentation.

NOTE 15 – SUBSEQUENT EVENT

On January 30, 2007, two water right quitclaim deeds were filed with Wasatch County conveying 85.5 acre feet of water rights to the District. The contribution of these water rights is valued at \$855,000.

SUPPLEMENTAL SCHEDULE

The schedule of impact fee activities is presented for additional analysis as required by *Utah Code Sections* 10-5-129, 10-6-150, 17-36-37, and 17A-1-4, and is not a required part of the basic financial statements.

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Schedule of Impact Fee Activities

December 31, 2006

Project: Water Reclamation Facility and related infrastructure

2002

Project expenditures	\$ (315,000)
2002 sewer impact fees collected	429,073
Unexpended 2002	<u>114,073</u>

2003

Project expenditures	(289,847)
2002 impact fees used	114,073
2003 sewer impact fees collected	220,052
Unexpended 2003	<u>44,278</u>

2004

Project expenditures	(249,018)
2003 impact fees used	44,278
2004 sewer impact fees collected	155,035
Over expended 2004	<u>(49,705)</u>

2005

Project expenditures	(392,378)
2004 overexpended impact fees	(49,705)
2005 sewer impact fees collected	427,744
Over expended 2005	<u>(14,339)</u>

2006

Project expenditures	(57,164)
2005 overexpended impact fees	(14,339)
2006 sewer impact fees collected	465,554
2006 interest earned	10,423
Unexpended 2006	<u>\$ 404,474</u>

It is anticipated the impact fees will be spent by 2008.

**JORDANELLE SPECIAL
SERVICE DISTRICT**

A COMPONENT UNIT OF WASATCH COUNTY

**Additional Auditors' Reports
And Schedules**

December 31, 2006

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Administrative Board Members
Jordanelle Special Service District
Heber City, Utah

We have audited the basic financial statements of Jordanelle Special Service District as of and for the year ended December 31, 2006, and have issued our report thereon dated February 14, 2007. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Jordanelle Special Service District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such

that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

We consider the deficiencies described in the accompanying Schedule of Audit Findings as items 06-2, 06-3, and 06-4 to be significant deficiencies in internal control over financial reporting.

A material weakness is significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider 06-3 to be a material weakness.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Jordanelle Special Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is described in the accompanying Schedule of Audit Findings as item 06-1.

Jordanelle Special Service District's responses to the findings identified in our audit are described in the accompanying Schedule of Audit Findings. We did not audit the District's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, pass-through entities and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

February 14, 2007

JORDANELLE SPECIAL SERVICE DISTRICT

A COMPONENT UNIT OF WASATCH COUNTY

Schedule of Audit Findings

December 31, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the basic financial statements of Jordanelle Special Service District.
2. There were three reportable conditions, as described in findings 06-2, 06-3, and 06-4, relating to the audit of the financial statements as reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. There was one instance of noncompliance or other matters, as described in finding 06-1, required to be reported under *Government Auditing Standards*.

B. FINDINGS — FINANCIAL AUDIT CURRENT YEAR

06-1 Finding: Escrow Accounts

While conducting the audit we noted that residual monies being held in escrow for feasibility studies have not been returned to the developers who commissioned the studies. During 1999 developer's arranged with the District to have feasibility studies performed. Management's representation at the time the monies were received was that the District would act as an agent, holding the monies in escrow to fund the studies. The accounting for the studies has consistently been reported in this manner. However, now that the studies are complete, management's representation is that the monies received were a fee for service and should be recognized as revenue, not returned to the developers.

Recommendation

We recommend the District's management confirm with these developers in writing that the projects are complete and the monies received were a fee for service.

District's Response

We agree with the finding and will implement the recommendation, insofar as possible.

06-2 Finding: Authorization of Payroll

While conducting the audit we noted that many timecards were missing either the employee's signature or the supervisor's signature.

Recommendation

We recommend the District review all timecards for required signatures prior to processing payroll to ensure payroll has been properly authorized.

District's Response

We agree with the finding and will implement the recommendation, insofar as possible.

06-3 Finding: Transactions Posted Incorrectly

While conducting the audit we noted that invoices for engineering services related to the construction of the District's capital assets were being expensed. We noted that cash receipts were posted in expense accounts. We also noted that debt service principle payments were being expensed.

Recommendation:

We recommend all invoices be reviewed and coded to the correct account prior to being entered into the Accounts Payable subsidiary ledger. We recommend cash receipts not processed through utilities billing be researched for proper account coding prior to recording.

District's Response:

We agree with the finding and will implement the recommendation, insofar as possible. We believe the appointment of a new District Treasurer will mitigate many of the issues noted.

06-4 Finding: Excessive Journal Entries

While conducting the audit we noted that an excess amount of journal entries are being made to correct posting errors of invoices and cash receipts. We also noted that some transactions were moved multiple times. The journal entries are not being documented which made tracking the transactions through the General Ledger extremely difficult.

Recommendation

As noted above, we recommend efforts be made by the District Treasurer to ensure transaction be entered correctly into the accounting system. When corrections are made, a list of the adjusting journal entries should be kept with a detailed explanation for each entry and documentation if applicable.

District's Response:

We agree with the finding and will implement the recommendation, insofar as possible. We believe the appointment of a new District Treasurer will mitigate many of the issues noted.

C. CURRENT YEAR STATUS OF PRIOR YEAR FINDINGS

05-1 Finding: Escrow Accounts

While conducting the audit we noted that residual monies being held in escrow for feasibility studies have not been returned to the developers who commissioned the studies. During 1999 developer's arranged with the District to have feasibility studies performed. Management's representation at the time the monies were received was that the District would act as an agent, holding the monies in escrow to fund the studies. The accounting for the studies has consistently been reported in this manner. However, now that the studies are complete, management's representation is that the monies received were a fee for service and should be recognized as revenue, not returned to the developers.

Status

See current year finding 06-1.

05-2 Finding: Authorization of Depository Accounts

While conducting the audit we noted that new depository accounts are being opened without authorization of the governing board. Management represented to us that specific Board members were required to sign documentation in order to open the accounts.

Status

Finding has been corrected.

05-3 Finding: Manual Invoices

While conducting the audit we noted that some invoices are being prepared manually instead of being created through the billing program. This has resulted in receipts being recorded incorrectly and errors in the accounts receivable subsidiary ledger. In 2002, a receipt was thought to be water reservation fees and was posted to revenue instead of being posted against the invoice in the accounts receivable subsidiary ledger. This error resulted in a prior period adjustment of the financial statements for the period ending December 31, 2003. Additional errors were found in the accounts receivable subsidiary

journal in 2003 and 2004 resulting in significant adjusting journal entries. In 2005, receipts for manual invoices were erroneously recorded in expense accounts or incorrect revenue accounts. Also, revenues were not accrued for some contracted services.

Status

Finding has been corrected.

05-4 Finding: Construction-in-Progress Posted Incorrectly

While conducting the audit we noted that invoices for engineering services related to the construction of the District's capital assets are being expensed.

Status

See current year finding 06-3.

05-5 Finding: Accounts Payable Understated

While conducting the audit we noted that contracted services received prior to year end, but invoiced after year end, were not being accrued. Management represented to us that this occurred because a January 31, 2006 cut-off period was used to accrue 2005 expenditures.

Status

Finding has been corrected.

05-6 Finding: Excessive Journal Entries

While conducting the audit we noted that an excess amount of journal entries are being made to correct posting errors of invoices and cash receipts. We also noted that some transactions were moved multiple times. The journal entries are not being documented which made tracking the transactions through the General Ledger extremely difficult.

Status

See current year finding 06-4.

**UTAH STATE COMPLIANCE REPORT BASED ON
THE REQUIREMENTS, SPECIAL TESTS AND PROVISIONS
REQUIRED BY THE STATE OF UTAH'S LEGAL
COMPLIANCE AUDIT GUIDE**

Honorable Administrative Board Members
Jordanelle Special Service District
Heber City, Utah

We have audited the financial statements of Jordanelle Special Service District for the year ended December 31, 2006, and have issued our report thereon dated February 14, 2007. Our audit included test work on the District's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special Districts
- Other General Compliance Issues
- Impact Fees and Other Development Fees

The District did not receive any state grants during the year ended December 31, 2006.

The management of Jordanelle Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above. There were no prior year findings.

In our opinion, Jordanelle Special Service District complied in all material respects with the compliance requirements identified above for the year ended December 31, 2006.

This report is intended solely for the information and use of management and the Utah State Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties.

Hawkins Cloward & Simister, LC

HAWKINS CLOWARD & SIMISTER, LC

CERTIFIED PUBLIC ACCOUNTANTS

February 14, 2007